



# THE SECOND REPORT ON THE DELAWARE STATE TREASURY

*Submitted to the  
People of the State of Delaware*

FEBRUARY 6, 2012

BY STATE TREASURER CHIP FLOWERS

It is with renewed hope and optimism that the State Treasurer, reflective of the wisdom and experience gained during the first year of service, humbly submits this Second Report of the Delaware State Treasury (the “People’s Treasury”) for the consideration and acceptance by the People of the State of Delaware. As Alexander Hamilton, the first Secretary of the United States Treasury, duly noted, “Public opinion [is] the ultimate arbiter of every measure of Government” and the People’s Treasury is not exempted from this principle. In furtherance of this principle, combined with a mandate inherent in the constitutional duty of the State Treasurer, this report is offered to the People to assess the condition and future of their treasury.

A strong treasury, backed by the full faith and credit of the People, is a powerful tool in restoring our economic prosperity. During the first year of the current administration, new ideas were put forth to improve and establish a new role for the People’s Treasury without compromising the core foundation laid by our predecessors. These ideas, grounded in the spirit of the moral cause of prosperity to the People of the First State, are necessary to propel our treasury forward.

Respectful of the unique role of the People’s Treasury within our constitutional framework, our treasury has entered into a transition period whereupon the 20th century methods of financial management are being updated and modernized to meet the rigors of a dynamic 21st century global economy. The safety and stability of public credit and funds is instrumental to the financial health of the State of Delaware. Our treasury has taken significant steps over the past twelve (12) months toward this endeavor.

The goal of this *Second Report on the Delaware State Treasury* is to continue the dialogue among the People and their treasury that began in *The Flowers Framework for Restoring Prosperity* (2010) and the *First Report on the Delaware State Treasury* (2011), by providing the People with an opportunity to experience the transition of their treasury through the lens of those who are entrusted to act in their collective financial interest.





# Delaware State Treasury

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This report is divided into two parts: (i) the state of the People's Treasury (including a discussion of its accomplishments and challenges) and (ii) proposed initiatives before the People's Treasury. Let us continue our discussion with the state of the People's Treasury.



## STATE OF THE PEOPLE'S TREASURY

Over the past year, as we began to rise from the depths of an economic crisis that has imperiled this great nation and state, the resolve of the People's Treasury was tested. Unstable financial markets, instability of the European Union and the Euro, a downgrade of debt issued by the United States and a post-recessionary economic climate were among the obstacles that required creative and innovative ideas to overcome during this transition period. Despite this turbulence, the state of the People's Treasury is strong and the treasury continues to thrive.

As noted in the *First Report on the Delaware State Treasury*, the People have benefitted from certain key strengths of their treasury that have transcended various administrations. Specifically, strong personnel, sound financial practices, outstanding customer service and strong financial education initiatives are key components of the People's Treasury. These strengths have played an instrumental role in the development and success of this important constitutional office.

However, as noted in the previous report, the following deficiencies existed within the People's Treasury upon the current administration's assumption into the office: (i) lack of 21st century vision, mission and organizational structure; (ii) insufficient cooperative relationships with the Delaware business community and external financial and economic agencies; (iii) failure to use our financial assets for state economic growth; (iv) insufficient number of personnel; (v) systemic issues with the state accounting program; (vi) outdated technology; and (vii) security. Though the previous report noted several initiatives that were implemented early in the term of the current administration to address these deficiencies, it is necessary and proper to discuss the accomplishments of the People's Treasury over the past year that were aimed at resolving the aforementioned deficiencies and propelling our treasury forward. (For ease of reference, those initiatives that were noted as either completed or proposed in the *First Report on the Delaware State Treasury* are marked below.)



## ACCOMPLISHMENTS OF THE DELAWARE STATE TREASURY

### *Implemented a 21st Century Vision & Mission (Completed as of the First Report)*

In 2011, the People's Treasury enacted a new mission to capture the proper constitutional role of this office.

*The mission of the People's Treasury, the cornerstone of the state's financial system, is to restore economic prosperity to the First State by providing critical financial services for the People of Delaware.*

Under this new mission, the treasury plays a pivotal role in (i) managing the state's financial system and (ii) restoring our economic prosperity.



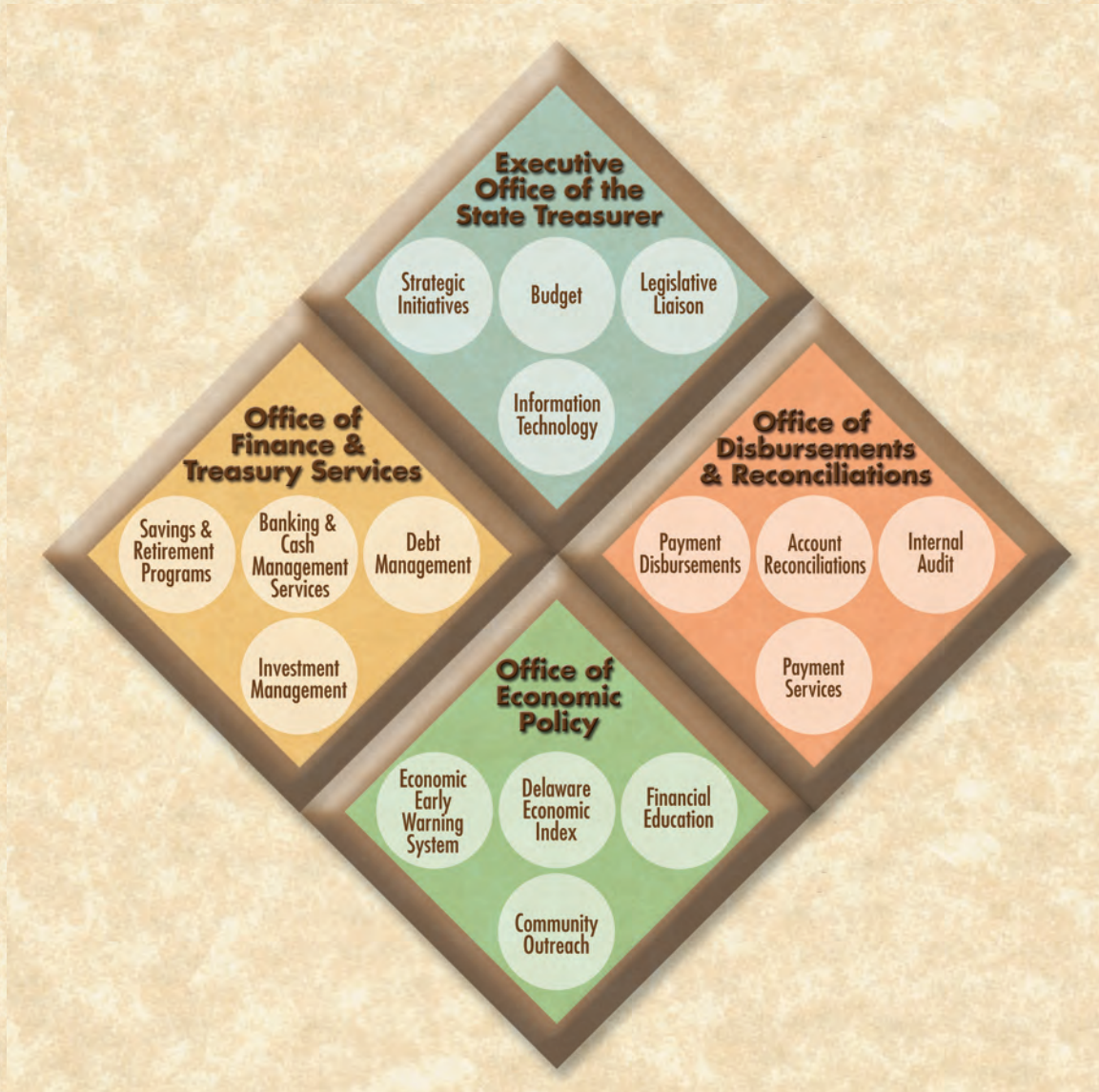


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## ***Created an Effective and Transparent Organizational Structure (Completed as of the First Report)***

To effectively perform the duties in furtherance of the mission of the People's Treasury, a transparent organizational structure must be in effect. The People's Treasury has created a new organizational structure that clarifies the functions of this office. Below is a chart depicting the new organizational structure of the People's Treasury:



## ***Created the Office of Economic Policy (Completed as of the First Report)***

The People's Treasury must have sufficient information prior to making financial and economic decisions. To fill this void, the People's Treasury has created the Office of Economic Policy ("OEP"). OEP is tasked with developing and promoting innovative initiatives that will assist in restoring prosperity. Additionally, OEP provides independent and nonpartisan economic guidance and analysis with respect to Delaware's economy. OEP also produces the Delaware Economic Index and implements the Delaware Early Warning System (both discussed later in this section). In doing so, OEP acts as a hub of economic information to inform the public of our state's economic condition. OEP was created without expense to taxpayers.

## ***Created an Office of Finance and Treasury Services (Completed as of the First Report)***

To achieve economic growth and job creation in the 21st century, the People's Treasury must have a strong presence in identifying financial and investment opportunities that stimulate economic growth. The Office of Finance and Treasury Services ("OFTS"), derived from existing resources within the People's Treasury, has been created to manage





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the state's investment portfolio and develop short- and long-range investment policies that will protect taxpayer dollars and assist in restoring our economic prosperity. OFTS interacts with public and private sector leaders to advance investment positions that benefit the state (including, but not limited to, protecting the state's AAA bond rating). OFTS has been created without expense to taxpayers.



## *Created a New Name for the People's Treasury (Completed as of the First Report)*

It is proper that the name of a government office focuses on the services that the office provides, not the elected official serving as the head of such office. To this end, the Office of State Treasurer has been renamed the Delaware State Treasury. This name change is beneficial as it is in line with names used by those offices in our fellow states having similar functions and responsibilities and adds significant stature to the important financial and economic policies issued by the People's Treasury.

## *Developed the Prosperity Portal*

To assist Delawareans in realizing their financial goals, the People's Treasury created the Prosperity Portal: Your Pathway to Financial Education (the "Prosperity Portal"), an online tool containing a repository of financial articles and information. Incorporating a unique partnership among the treasury, federal agencies, and Delaware non-profit organizations, the Prosperity Portal is a valuable resource for individuals, families and businesses. The Prosperity Portal includes links to financial articles, services and resources with the goal of providing critical information for Delawareans of all ages and income levels as they make key financial decisions. As an ever-developing product, the Prosperity Portal will continue to evolve to meet the needs of the People.

## WELCOME TO DELAWARE STATE TREASURY'S

# Prosperity Portal

## YOUR PATHWAY TO FINANCIAL EDUCATION

## *Earn • Save • Invest • PROSPER Marketing Outreach Campaign (Proposed in the First Report)*



In these challenging financial times, planning for retirement is paramount and the People's Treasury has an important role in ensuring that Delawareans plan and invest in their own financial future. To assist in this effort, the People's Treasury developed the statewide Earn • Save • Invest • PROSPER campaign, a marketing outreach effort to encourage savings, advocate for sound investments, and provide resources that will help Delawareans achieve their retirement goals. The treasury promoted this theme

in all of its outreach endeavors this past year, including those to state employees, at the Delaware State Fair, and in online and media outlets.

## *Modernized the People's Treasury*

### *(Proposed in the First Report)*

Advanced technology is critical in managing the state's investment portfolio in a dynamic 21st century global economy. Since the arrival of the current administration, a major initiative has been undertaken to modernize the People's Treasury to fulfill its constitutional and legislative mandates. New technology (including hardware, software and technical resources) has been put in place to ensure that our

Index BTMM

Change	Index	Value	Change	Index	Value	Change	Index	Value
0.01	US TREASURY 10Y	4.02	0.01	US TREASURY 30Y	4.02	0.01	US TREASURY 5Y	4.02
0.01	US TREASURY 2Y	4.02	0.01	US TREASURY 1Y	4.02	0.01	US TREASURY 6M	4.02
0.01	US TREASURY 3M	4.02	0.01	US TREASURY 15Y	4.02	0.01	US TREASURY 20Y	4.02
0.01	US TREASURY 25Y	4.02	0.01	US TREASURY 30Y	4.02	0.01	US TREASURY 35Y	4.02
0.01	US TREASURY 40Y	4.02	0.01	US TREASURY 45Y	4.02	0.01	US TREASURY 50Y	4.02
0.01	US TREASURY 55Y	4.02	0.01	US TREASURY 60Y	4.02	0.01	US TREASURY 65Y	4.02
0.01	US TREASURY 70Y	4.02	0.01	US TREASURY 75Y	4.02	0.01	US TREASURY 80Y	4.02
0.01	US TREASURY 85Y	4.02	0.01	US TREASURY 90Y	4.02	0.01	US TREASURY 95Y	4.02
0.01	US TREASURY 100Y	4.02	0.01	US TREASURY 105Y	4.02	0.01	US TREASURY 110Y	4.02
0.01	US TREASURY 115Y	4.02	0.01	US TREASURY 120Y	4.02	0.01	US TREASURY 125Y	4.02
0.01	US TREASURY 130Y	4.02	0.01	US TREASURY 135Y	4.02	0.01	US TREASURY 140Y	4.02
0.01	US TREASURY 145Y	4.02	0.01	US TREASURY 150Y	4.02	0.01	US TREASURY 155Y	4.02
0.01	US TREASURY 160Y	4.02	0.01	US TREASURY 165Y	4.02	0.01	US TREASURY 170Y	4.02
0.01	US TREASURY 175Y	4.02	0.01	US TREASURY 180Y	4.02	0.01	US TREASURY 185Y	4.02
0.01	US TREASURY 190Y	4.02	0.01	US TREASURY 195Y	4.02	0.01	US TREASURY 200Y	4.02





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modern treasury is agile and productive. To assist in managing the state's portfolio, a state-of-the-art comprehensive financial system was implemented to provide real-time market moving economic information and data to allow the People's Treasury to respond rapidly to economic conditions and provide key data to the People of the State of Delaware. Wireless network capabilities and portable computing devices have been deployed to increase the efficiency and effectiveness of treasury staff.



## Expanded the Online Presence of the People's Treasury (Proposed in the First Report)

A treasury website must be user friendly, demonstrate the highest levels of transparency and accountability, and provide relevant financial and economic information. In 2011, the People's Treasury's website, [treasury.delaware.gov](http://treasury.delaware.gov), underwent a complete overhaul to enhance and spotlight the treasury's vision, message and initiatives. Not only did the new website achieve its goals, but it has become one of the most modern sites in our state government. The site is continually updated and the topics and initiatives on the treasury website all streamline into a very easy to use point-and-click system, avoiding long delay links or less than user-friendly connections. The treasury has also expanded into social media, providing real-time updates to those that use the latest technological offerings for their news and information.

## Revamped the National Save for Retirement Week Program

In conjunction with the Earn • Save • Invest • PROSPER marketing outreach campaign, the People's Treasury expanded its National Save for Retirement Week effort, from a targeted state employee-driven campaign to a statewide marketing campaign encouraging all Delawareans to plan for retirement. In addition to traveling information booths, the statewide campaign promoted the Prosperity Portal and the DelawareSaves.com website (a specialized portion of the treasury website focusing on savings and retirement plans). Additionally, the program offered one-on-one retirement planning consultations, circulated information on retirement savings, and engaged the state's major media outlets to promote the message. In an effort to expand knowledge of the state's Defined Contributions Plans, the treasury team responsible for administering this program visited state sites in all three counties during the program week.







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## Signed Landmark State Agreement with American Express®

Since the previous report, the People's Treasury signed a new agreement with American Express® which offers corporations and individuals another payment option for certain services when conducting business with the state. This agreement is part of the treasury's effort to provide customers with the highest level of financial service while providing economic incentives that reduce the transaction costs borne by taxpayers and maintaining our competitiveness. Currently accepted by the Delaware Division of Corporations and the Delaware Division of Professional Regulation, American Express® is expected to be accepted by other state agencies in the near future.



## Supported Delaware Small Businesses

The People's Treasury is committed to supporting Delaware's small businesses, our state's engine of job growth and economic prosperity. Last spring, the People's Treasury proposed an innovative program entitled the Delaware Small Business Investment Program (the "Program"), to promote small businesses by increasing the amount of available capital for lending in our local economy. The Program would have deposited a small portion of state funds in federally backed accounts in Delaware lending institutions and provided an incentive for banks to lend money to small businesses at no risk to taxpayers. Though the Program was not implemented, the People's Treasury is proud to offer innovative ideas to improve the financial viability of the state's small business community. Additionally, the People's Treasury was a vigorous supporter of "Small Business Saturday," a national initiative which encouraged Americans to shop at local small businesses on the Saturday after Thanksgiving. Small Business Saturday was a success as an estimated 103 million Americans participated nationwide.

## Created the Delaware Economic Index (Completed as of the First Report)

As the cornerstone of the state's financial system, the People's Treasury must provide the public and businesses with relevant economic data that will assist them in making informed financial decisions. Issued by the OEP, the Delaware Economic Index (the "Index") serves this purpose by providing key national and state economic data and news in a centralized location and easy-to-read electronic format. Accessible on the treasury's website and via e-mail, the Index contains information which impacts Delawareans, including home and gas prices, unemployment and mortgage rates, and stock prices of major state employers.

## Implemented the Delaware Early Warning System (Completed as of the First Report)

Economic downturns can occur at any time. Having a financial early warning system is essential to the financial health of Delaware's families and businesses. The People's Treasury has developed the Delaware Early Warning System, a simple color-coded rating of the state's economic climate that uses







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economic data from Delaware, the region and the nation to evaluate the state's economic position and assess the performance of the state's economy over the prior sixty (60) day period. The early warning system is a powerful tool in informing Delawareans of changes in the economic climate that can impact their livelihood. The Early Warning System is available on the treasury's website and is distributed with the Index on a bimonthly basis through various media outlets.

## *Signed Delaware Money in Delaware Banks Directive*

The importance of supporting banking institutions chartered or having a significant presence in Delaware is paramount to the People's Treasury. Under the "Delaware Money in Delaware Banks" Directive (the "Directive"), up to \$250,000 of state funds are deposited in qualified Federal Deposit Insurance Corporation ("FDIC") insured banks having an active presence in Delaware. This innovative program deposits state funds in secure savings accounts and/or certificates of deposit that are paying a rate of return equal to or higher than the rate the state is currently receiving on similar deposits. Spreading deposits over a large number of banks will diversify our state funds, thus increasing safety while supporting our local banks.

## *Established and Strengthened Relationships with Federal Agencies (Proposed in the First Report)*

The People's Treasury has worked to establish strong ties with key federal agencies tasked with issuing financial and economic policies. Meetings with senior White House officials and representatives of Federal Reserve Banks and the United States Treasury Department have enhanced the voice of our treasury in these policymaking venues. These relationships can influence critical financial decisions made at the national and regional level that impact the fiscal health of our state. Through these cooperative efforts, Delaware can be an active stakeholder in influencing the policies and practices necessary to restore our economic prosperity.

## *Selected New Merchant Services and Credit Card Processing Vendor*

The state's bank card acceptance program is organized and centralized under the purview of the People's Treasury. Bank card acceptance is one element in the overall plan of the People's Treasury to streamline revenue collection, speed receipt of payments, and lower overall banking costs while maximizing interest income. Recently, EPX, Inc. ("EPX"), a Delaware company, was awarded the treasury's merchant services and bank card processing contract to provide a central e-payment gateway for all state agencies. EPX will serve as the first stop for all virtual terminal and Internet-based transactions in the payment stream. By providing local vendors an opportunity to compete to receive state funds in major contracts, the People's Treasury is playing its part to support economic growth in the First State.







## CHALLENGES FACING THE PEOPLE'S TREASURY

**W**hile significant progress has been made by the People's Treasury over the past year, new challenges have emerged that will require the treasury to allocate resources and implement innovative ideas during the next twelve (12) months to continue delivering high-quality services. With the continued support of the People and their elected representatives, the treasury shall rise to meet these new challenges with the same spirit, dedication and determination that have guided this institution to date.

Below are a few of the major challenges facing the People's Treasury:

### *Technology and Security (Ongoing)*

While great strides have been made in modernizing the People's Treasury to meet the requirements of a 21st century financial office, work in this area must continue. Currently, the Treasury's critical financial data is stored in a manner that is not consistent with best practices. Failing to store data consistent with best practices causes concerns for the safety and security of confidential information as well as the ability of the People's Treasury to access critical information in cases of disaster. The security of our state funds is the primary concern of the People's Treasury. The office's technology needs to be modernized to ensure the highest level of protection.

### *The State's Deferred Compensation Plans*

Investment contracts for the state's 457(b) and 403(b) Defined Contributions Plans (the "Plans") have not been subject to rebid for an extensive period of time. As a result, the People's Treasury is unable to ensure that participants of the Plans are receiving the best possible benefits at the lowest fees available for such services. Only an open and competitive bid process can ensure that the Plans meet the highest industry standards while providing superior services for our state employees.

### *Transparency of Policies Issued by the Cash Management Policy Board*

Under Delaware law, the provisions of the Administrative Procedures Act ("APA") govern the activities of nearly all state boards and commissions that propose to adopt, amend, create or repeal a regulation. The APA requires, among other things, public notice of any proposed regulatory changes and provides the People with an opportunity to comment on proposals prior to implementation. Current practices of the Cash Management Policy Board are ambiguous with respect to the APA and should be clarified. Since the policies promulgated by the Cash Management Policy Board, a fiduciary of public funds, impact the state's over \$2 billion investment portfolio, it is necessary and proper that these policies be subject to the APA. The APA is a crucial component of the effort to promote transparency throughout the State of Delaware. Not only is compliance a legal imperative, it is a moral imperative as the People deserve an opportunity to comment on regulatory decisions that will impact their money.





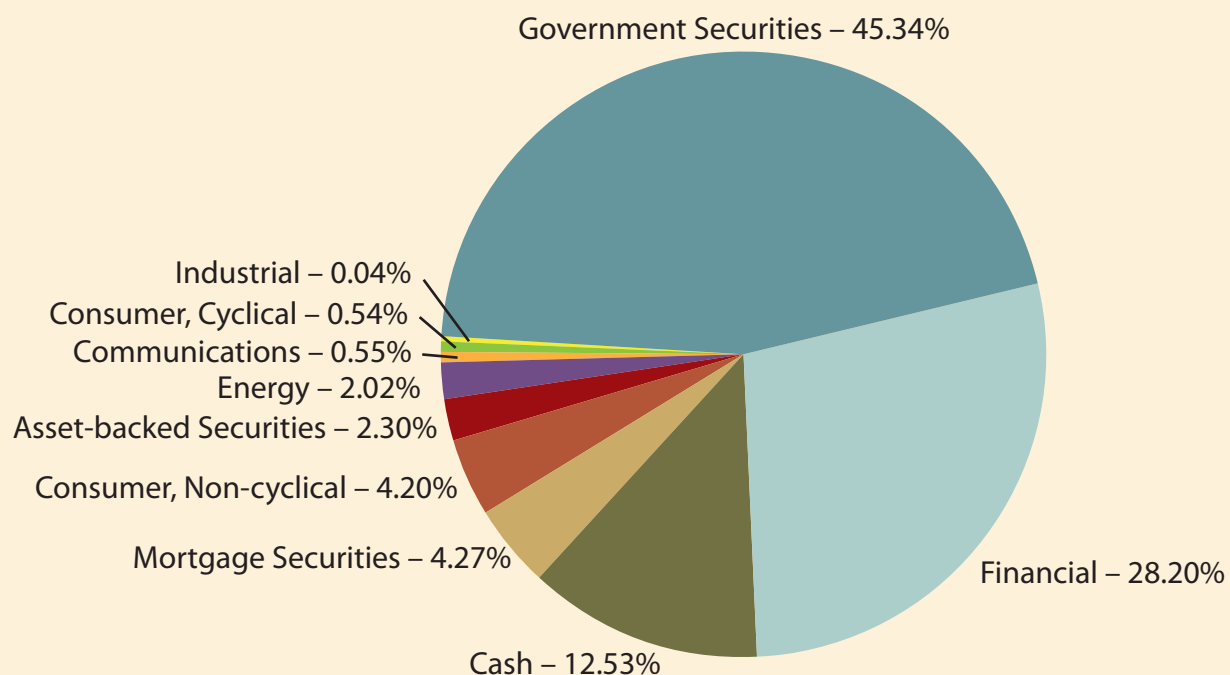
## ***Insufficient Number of Investment Managers***

With only five (5) investment managers, ensuring a competitive and diversified distribution of state funds remains a challenge for the People's Treasury. To increase competition among investment managers with regard to the services they provide and thus increasing the benefits achieved by the state, it is essential that the number of approved investment managers be increased. Furthermore, despite the increasing number of small, women- and minority-owned investment firms, the state does not have a single contract for investment services with a women- or minority-owned investment firms. The treasury does not have a single contract for investment services with any of these investment firms. Without expanding the number of investment managers (inclusive of small, women- and minority-owned businesses), the state is unable to leverage its funds to increase investment returns safely through competition while diversifying qualified investment managers.

## ***Structure of State Investment Portfolio***

Protecting and safely investing the state's financial assets are the primary responsibilities of the People's Treasury and the Cash Management Policy Board. While the policies promulgated by the Cash Management Policy Board have guided the state's investment strategy for over three decades, such policies fail to create an investment portfolio that protects and secures our state's assets. Dated investment policy guidelines that may have met the challenges of the 1970s, 1980s and 1990s are no longer appropriate for handling the complexities of our dynamic 21st century global economy. Lacking an independent financial advisor with expertise in the niche area of government finance, the state's current investment portfolio fails to adhere adequately to the principles of diversification, liquidity and yield. The structure of the state's investment portfolio requires an extensive overhaul based upon the guidance and recommendation of financial experts to meet the challenges of today's global economy, maintain our state's AAA rating and ensure the safety of our state's funds.

## **Asset Allocation of State of Delaware Investment Portfolio**



Approximate Asset Allocation as of December 2011





## PROPOSED INITIATIVES OF THE PEOPLE'S TREASURY

**I**n light of the aforementioned challenges facing the People's Treasury, and to further its mission, the People's Treasury hereby proposes the following initiatives for the upcoming year:

### ***Clarify Applicability of Administrative Procedures Act to Cash Management Policy Board Policies***

Ensuring the policies adopted by the Cash Management Policy Board that impact our state's investment portfolio are subject to transparency and accountability to the People is needed to counter any opinion to the contrary. Policies enacted to secure, protect and invest public funds should be subject to "open government" laws without any ambiguity. To this end, the People's Treasury will work with members of the General Assembly, the Office of the Attorney General and members of the Governor's Administration to clarify, under the Delaware Code, that the Cash Management Policy Board is subject to the Administrative Procedures Act. In doing so, an important set of policies that impact the financial health of our state will be subject to review by the People.

### ***Engage an Independent Expert Investment Advisor***

To ensure that the policies promulgated by the Cash Management Policy Board are consistent with best practices in light of the changes undergoing global financial markets, the People's Treasury will engage an independent financial advisor having expertise in government and public finance to assist the Board, in collaboration with the treasury, in making critical policy decisions that impact our ailing state investment portfolio. The advisor will also perform a variety of financial analyses and tasks on behalf of the People's Treasury to ensure that the state is managing its funds in an optimal manner. In order to qualify to serve as the independent investment advisor, the advisor will be prohibited from managing state funds while serving in that capacity.

### ***Restructure the State's Investment Portfolio***

Based upon the advice of the investment team of the People's Treasury and a selected independent financial advisor having expertise in government and public finance, the treasury will restructure the state's investment portfolio in a manner consistent with the challenges of today's 21st century dynamic global economy. Because safety and liquidity of the state's investment portfolio remain the top priorities of the People's Treasury, this initiative will seek to restructure the portfolio to achieve a higher level of asset diversification while maximizing return with minimal risk. Adhering to the principles of the Administrative Procedures Act, the People's Treasury will ensure that, in the course of restructuring the state's investment portfolio, the underlying policies that result in a change to our portfolio will be subject to our state's open government laws.

### ***Implement and Expand Delaware Money in Delaware Banks Directive***

Pursuant to the statutory preference to deposit state funds in accounts secured by the United States Government, supporting financial institutions located in Delaware remains a top priority for the People's Treasury. In connection with the "Delaware Money in Delaware Banks" Directive signed last year, the treasury intends to begin depositing up to \$250,000 in FDIC-insured accounts at qualified financial institutions this year. Additionally, with local credit unions offering competitive rates in FDIC-insured accounts, the treasury will expand the directive to include credit unions that are offering rates equal to or greater than rates received by the treasury on similarly situated funds – thus increasing the return on the state's investment portfolio without incurring additional risk.





## ***Increase the Number of Investment Managers***

Guaranteeing an open and competitive environment among those who manage our state funds can be accomplished (in part) by increasing the number of investment managers. Based upon the advice of treasury personnel and the selected independent investment advisor, the People's Treasury will increase the number of investment managers pursuant to an open and fair request for proposal ("RFP") process. With a limited number of investment managers, the state lacks a sufficient threshold of managers to measure the performance of both the state investment portfolio in the aggregate and the individual investment managers. Additionally, increasing the number of investment managers will allow the state to select investment managers that have expertise in a variety of asset classes. Finally, an increase in the number of investment managers will allow qualified small, women- and minority-owned businesses an opportunity to compete to manage our state funds.

## ***Reduce the Number of Checks Issued by Using Prepaid Debit Cards***

Though the People's Treasury has significantly reduced the number of checks processed and issued over the past several years (14% reduction in FY11), the rate of reduction is beginning to stabilize due to the lack of additional payment mechanisms available to state vendors and employees. To increase the rate of reduction of checks issued, the People's Treasury seeks to implement a Prepaid Card Program during the next fiscal year. The use of prepaid debit cards will streamline operations by eliminating time-consuming processes associated with printing checks and vouchers and having to replace them if they are lost or stolen. Funds can be loaded onto the prepaid cards in real time and remotely, reducing paperwork and disbursement costs. The program will allow cardholders to make purchases from vendors or access cash from ATMs. This program is expected to reduce treasury expenses upon full implementation through larger state departments and agencies.

## ***Migrate Major Treasury Operational Systems to the State's Server***

With significant advances in technology, the ability to provide a high level of security to the treasury's major operational systems for a minimum cost is plausible. During the upcoming year, the People's Treasury will undertake an initiative to transfer a significant portion of the treasury's confidential information to the state's secure server network hosted by the Delaware Department of Technology and Information ("DTI"). Under the proposed arrangement, DTI will provide information technology services to the People's Treasury to ensure that critical and confidential financial information is secured properly and managed by those tasked with safeguarding our state's confidential data.

## ***Expand Financial Education and Outreach Programs***

The current financial outreach programs of the People's Treasury have been extremely successful. Given the success of these projects, the People's Treasury intends to expand our financial education and outreach programs in the coming year. An expansion of the Prosperity Portal is planned, providing even more hands-on information and resources, including a new section that will bring financial education directly to the next generation of Delawareans. It is this goal of providing the next generation with this basic financial knowledge that will drive the Treasury to work on efforts to bring more financial education into the Delaware classrooms. It is essential that every citizen has access to the information and resources they need to plan for a solid financial future and the treasury looks forward to expanding its role in that effort.





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## *Propose Investment Warrants for State-Funded Projects*

The People's Treasury remains a center for generating fresh and innovative ideas to fulfill its constitutional and statutory mandates. In an effort to supplement the state's effort to support certain economic development projects, the People's Treasury advocates the ability of the treasury, based upon the structure of the financial incentive packages offered by the Delaware Economic Development Office ("DEDO"), to negotiate the purchase of warrants of companies that receive taxpayer dollars. Under this proposal, the People's Treasury, using the authority vested in the office, would work with state officials to negotiate warrants with selected companies. In addition to the other benefits associated with a state-funded project, warrants would (i) provide an additional protection mechanism if the state project is unsuccessful, and the recipient company relocates outside of Delaware and (ii) allow the People's Treasury to receive funds at a higher rate of return for investing in a project without incurring additional risk.\*



## CONCLUSION

**T**he State Treasurer and his administration, upon careful consideration of the matters set forth herein, have detailed the state of the People's Treasury in this *Second Report on the Delaware State Treasury*. This report is humbly submitted to the People of the State of Delaware for their proper consideration. Let our discussion begin.

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This *Second Report on the Delaware State Treasury* was made possible through the hard work of a great team of individuals committed to the cause of public service. I am personally indebted to each of them and their commitment to revitalizing the People's Treasury serves as an inspiration. To this end, a special note of gratitude and appreciation to the following contributors:

Ms. Erika J. Benner, Deputy State Treasurer  
Ms. Kelly Callahan, Special Assistant to the State Treasurer  
Mr. Larry Nagengast, Advisor  
Mr. Omar Masood, Advisor  
Ms. Lonni Lehman, Designer  
The Delaware State Treasury Team

\*For information purposes, a warrant is a type of security that gives the holder the right to purchase a security (usually stock) from a company at a specific price at a later date. The warrant is only exercised by the holder if the value of the stock at the date of exercise is higher than the purchase price set forth in the warrant. For example, a warrant to purchase Company ABC stock for \$1 per share is issued to the treasury in May 2012 and the warrant may be "exercised" (or executed) in May 2015. If in May 2015, Company ABC stock price is \$5 per share, then the treasury has made \$4 per share in unrealized gain (\$5 - \$1 = \$4). If in May 2015, Company ABC stock price is less than \$1 per share, the treasury loses no money as the warrant has no value (the treasury is under no obligation to purchase Company ABC stock). Thus, a warrant provides the treasury with an opportunity to reap the benefits of a state investment without losing additional state funds if the state-funded company falters.